

# **Kentucky Agriculture Resource Development Authority**

## **Meeting Minutes**

**July 17, 2002**

**The Kentucky Agriculture Resource Development Authority met on Wednesday, July 17, 2002 at the Cooperative Extension Office in Glasgow, Kentucky. Sharon Furches called the meeting to order.**

### **Members Present:**

Terry Ashby; Dr. Harold Benson; David Sparrow designee for Dean Scott Smith; Glen Massengale; Peter McNeill; Patrick Jennings designee for Sam Moore; Bill Payne; Harvey Mitchell designee for Commissioner Billy Ray Smith; Will Southerland; David Switzer; Bettie Wallace; Sharon Furches

### **Members Absent:**

Morris R. Cave; John Fritz; Senator Ernie Harris; John-Mark Hack; Keith Harris; Genie Akin Hart; Larry Jeffries; Scott Kuegel; Doug Lawson; George Martin; Billy Joe Miles; Charles Miller; Terry Rhodes; Representative Roger Thomas; Martha Thompson

### **Guests:**

Beth Wisman, Biff Baker

### **Governor's Office of Agricultural Policy Staff Present:**

Joel Neaveill; Bruce Harper; Bill McCloskey; Edith Fultz

### **Welcome and Opening Remarks:**

Sharon Furches - Welcomed the members and ask for the roll call.

Joel Neaveill - Introduced Edith Fultz as the administrative support person for the KARDA Board. He also introduced Bruce Harper, former chair of KARDA, as a new employee of the Governor's Office of Agriculture Policy, and Bill McCloskey as the staff contact for the Mammoth Cave area.

Sharon Furches - Thanked Gary Tilghman and Barren County Extension for the use of their facility.

## **Minutes of March 12, 2002 Meeting**

Sharon Furches - Asked for a motion to approve the minutes of the March 12, 2002 meeting. David Switzer moved to approve; Glen Massengale seconded the motion. The motion passed unanimously; the minutes were approved

## **Committee Reports**

Sharon Furches - Announced that most of the committee chairmen were not able to be here this morning, so we just had a meet and greet and the board moved on to the tour of Glasgow Spray Dry.

Harvey Mitchell – Kentucky Department of Agriculture report – He thanked us for the opportunity to be here. He told us that Commissioner Smith is on his way from Indianapolis where he is involved in a USDA Conservation Program. He will be in Princeton this evening.

There are a variety of things going on in the Kentucky Department of Agriculture. He told us we are dealing with the budget issues and all of the animal health issues, such as Mare Reproductive Loss Syndrome, Avian Influenza and West Nile Virus. We are also dealing with several different health issues with chickens, birds, horses, etc. All of these things are kind of new to us. Last year we were dealing with Foot and Mouth disease in Europe. We had Dr. Hall, our field service Veterinarian, go over there to help with that. We have been working with Virginia, West Virginia and North Carolina in the management of their Avian Influenza situation. They have killed 5,000,000 birds, about 200 flocks depopulated. We have had to establish some regulations to keep this situation out of Kentucky. We have used a variety of approaches, including sterilization of trucks. West Nile Virus continues to make its presence known. We have 10 or 12 counties that now have had a positive case of West Nile Virus in either birds or horses. We have no human cases at this time. It is becoming a notable problem. It is spread by mosquitoes. One of the responsibilities of the Department of Agriculture is helping control mosquito populations in the state. Our pest and weed division are busy spraying and coordinating with the Department of Health as they deal with this issue.

Mr. Mitchell also told us about their new marketing campaign, the Kentucky Fresh Logo Promotion Program. He gave out refrigerator magnets with the Logo. The Logo has been widely well received. The kick-off started with Kroger. Wal-Mart will be next, along with others. Eighty-two of Kroger's ninety-eight stores in Kentucky will have "Kentucky Fresh" products in them. We don't have all of the Kroger stores because they are not displaying the logo on the borders of other states. There has been tremendous support for "Kentucky Fresh" by a lot of agencies. An independent council was put together to discuss the attributes, the reason, logistics, etc. In a survey that was done with over 100,000 cards sent out, the Kentucky Fresh logo provided guidance that producers could see and consumers are willing to pay a little more money for. Kentucky Fresh will be expanded into Kentucky value added products.

For example, you might see a rocking chair made with Kentucky Pride. It will be this same logo. Recognition is what we are looking for with this logo. A large number of people got together to develop this campaign and logo and it is going over extremely well.

He commented about the interaction of the Department of Agriculture and the Governor's Office of Agricultural Policy/ Agricultural Development Board. He told us that he doesn't remember a time when agriculture was more united. We are focused in the right direction for the right reasons. We are equal partners. The tobacco settlement Phase I money has provided an opportunity that we have never had before. The support by the universities, commodity organizations and the desire to change from being so totally dependent on tobacco is here. Had we tried this 10-15 years ago the reception would not have been as great as it is now. The tobacco producers were not looking for alternatives at that time. Since 1998 they have been looking for alternatives. The monies that have been presented thus far have dealt mostly with production agriculture. The next area of challenge will be to develop infrastructure marketing systems, regional markets, etc. to reduce the segmentation that exist in agriculture and to have a united effort to add value, identify it and recover the value. We need to have a united effort in the upcoming session more than ever.

Joel Neaveill- handed out information on the 2002 payment schedule for Phase II payments. There is an estimated \$130,000,000 to be paid out this year. Payments will go out December 30<sup>th</sup>. August 5<sup>th</sup>, applications will be sent out. September 16<sup>th</sup> applications are due with a postmark of that date. October 1<sup>st</sup> the payee register will be published. October 15<sup>th</sup> the disputed application period ends. On November 15<sup>th</sup> we will know exactly how much and what that rate will be to each producer.

In the upcoming budget cycle, fiscal year 2003-2004, about \$120, 000,000 of Phase I funding will be made available for projects. We are in fiscal year 2003 right now. Money won't be will be available for investments of 2003 money until January and April of calendar year of 2003. In fiscal year 2004 money won't be available until April of 2004. The funding cycles of the tobacco payments don't coincide with the fiscal years. We didn't run into this last session because we had accumulated three or four years of tobacco settlement payments. This is becoming a problem with programs that are taken off the top, paid with Master Settlement Agreement funds, such as the Environmental Cost Share. It is in the Governor's spending plan to put \$9,000,000 into the Environmental Cost Share. On the fiscal year cycle they are expecting to know on July 1<sup>st</sup> that the money is there. Since the fiscal year 2003 money won't be available until January and April of 2003, counties that are out of money at this time won't receive any money until January 2003, when they will receive approximately 25%. They will receive the balance in April. The January payments end after 2003. We are seeing a reduction in applications for Ag Development Funds. People are getting set in programs and ideas. There is also less money available. What we as a staff are now able to do, is become proactive instead of reactive. We can seek out entrepreneurial programs and innovative projects. About 10 counties are out of funds at this time. We expect all counties will be out of funds before they receive their next

allotment. He estimated that about 75% of all county funds from the 2002 monies have been committed.

Part of the Agricultural Development Board's Long Term Plan involves their second priority. It's improving access to capital. The Governor intends to reactivate the Kentucky Agricultural Finance Corporation in the near future, which is currently on the books. Their statutory purpose is to assist private enterprise in producing the necessary capital to aid small family farm operators and first time farmers; to work with the department of Agriculture to benefit those engaged in agriculture and related enterprises. The corporation was created for the stimulation of existing agricultural enterprises and the promotion of new agricultural ventures. This is very broad. We envision this corporation being set up to receive grants/gifts, to own real property and issue bonds with at limit of \$500,000,000 bond issue. The Agricultural Development Board will be working with the Kentucky Agricultural Finance Corporation. This is a good first step in improving access to capital and achieving the Agricultural Development Board's second highest priority.

Harvey Mitchell told us The Kentucky Agriculture Finance Corporation was formed in 1984. It offered low interest loans. There are presently about 10 active loans. They did have bonding authority, but there were regulations that dealt with limits which most farmers surpassed quickly as the agriculture structure changed. That board, which is appointed by the governor, has been inactive for 10 years. To be reactivated, the Governor will have to reappoint people to the Kentucky Agriculture Finance Corporation Board. There is money available through surplus property, through treasury, to support that fund. The bonding authority in the state is restricted right now, limiting bonding of large amounts of money for infrastructure.

Biff Baker told us that whatever we work out will probably require statutory changes. Mr. Baker and Mr. Mitchell discussed some of the problems with this program and the bonding issues. There was general discussion on the bond money, problems and solutions, and how to use Agricultural Development Board funds to support the Kentucky Agriculture Finance Corporation. Questions were raised about who would be in control of the Kentucky Agriculture Finance Corporation and what is the future of the Agricultural Development Board past the term of the Patton Administration. This is something that the legislature will have to work out.

Sharon Furches talked about the appointments of County Council members.

Joel Neaveill told us that the majority of County Council members have stepped up and taken on that responsibility again. Everyone is stressing continuity and consistency in the process. The members have recognized that they need to stay in place to maintain that continuity.

Harvey Mitchell told us that we have had over 1,400 applications for Agricultural Development funds with over 700 approved. The structure with county councils having county input and making choices about their priorities and taking that to a state

board is a good process. The people who participate as well as the staff are very serious about what we are doing.

Sharon Furches told us that the unity shown in Kentucky's agriculture is the envy of other states in the country.

Joel Neaveill. Budget update – The Governor's spending plan for 2003. Tobacco Settlement money and Department of Agriculture money is there. Things are going to continue as if this is a passed budget for 2003. There was discussion on the dead animal removal and the approved methods of disposal. There was also discussion on a one-time increase in pay for county extension agents.

Harvey Mitchell told us that there is a lawsuit involving whether the Governor has to operate on a continuation budget. The issue of state employee salaries and the number of state employees was discussed. The environment is different now than what it was early in the year. There could be a lot of changes for agriculture, education, etc.

Patrick Jennings talked about the Impact of the Farm Bill. He told us that there is some controversy about where the money goes. Whether it goes to Kentucky or to the Mid-West. He also told us that Kentucky is the highest application state in the EQUIP Funding. About 1 in 5 people that apply actually get the funding. The Farm Bill had a 600% increase in the EQUIP Fund. They have created some parameters that 60% of the funds have to go to livestock producers. One of the things people are excited about is the ability to update bases and update their yields. They are basing this on a four-year average. People who have only been farming one year are only going to get 1 quarter of whatever their yield should be. It looks like this is more involved in getting people who have been in farming to stay, not necessarily to get new people in the business. The Payment caps are about \$360,000. The three-entity rule still works on that. All three have to be actively involved in the operation. Individual caps are about \$180,000. They are going to implement the bill this year. Some of the direct payments will be out in August or September. There have been two amendments to reduce the payment caps and take some of the money out of the farm bill. We are trying to keep that money in the commodity title of the Farm Bill. There was some discussion as to when the payments will be out.

David Switzer Kentucky Thoroughbred Association - told us that their industry was written out of the farm bill in conference committee where they were looking for some support for future disasters. He also told us that they are starting to process low interest loans that were made available on a one-time basis. We start that on the 25<sup>th</sup>. There is going to be a workshop/seminar with FSA in Lexington available to all equine.

Patrick Jennings told us that Farm Bureau has put together a booklet with a pull out included where you can plug in your numbers with your average payment per year and your yield would be. This booklet will be available at the Princeton Field Day. There was general discussion on the Farm Bill. There questions about whether there are

programs that are not in that booklet. There are some programs in the Farm Bill that are specifically related to certain parts of the country. For example, The Green River area project received \$110,000,000, the largest single contribution in the country, for their conservation program.

Harvey Mitchell told us that there are some Federal Funds for Homeland Security that will be helpful. These funds are being sent our way for help with the animal diagnostic laboratories. The laboratories could be converted for use during an anthrax incident, etc. There are significant dollars attached to the Homeland Security Funding Program, which does impact agriculture including plant disease research. There was some discussion.

Joel Neaveill – passed out a handout on the tobacco buyout from an economist's viewpoint, drafted by Dr. Will Snell of the University of Kentucky

Patrick Jennings – told us that Kentucky Farm Bureau's delegates asked them to build a consensus from the different tobacco groups before presenting their views on the Farm Bill and before going to Washington. Congressman Fletcher introduced the plan in the form of a Bill on June 27<sup>th</sup>. They have 9 co-sponsors now (5 democrats & 4 republicans). This Bill keeps the tobacco program. It keeps the cost of production price support at about \$1.35. Eligibility for payment is to be a quota owner July 1, 2002. They will pay according to what the quota was worth in 1998. The grow portion will be based on the average effective and marketing quota's for 2001-2002. Dark is going to be converted over to poundage, based on the 1998 year. It does keep the quota system. Under the new system you cannot lease or sell tobacco quota. He explained that under this new bill, quota owners cannot have a tenant type relationship. Under the bill the county FSA committees will spot check 5% of the farms in the counties each year to make sure that the farmer is 100% at risk. The major health groups are supporting this bill. They also wanted an extra incentive for people to get out of the tobacco business. They included a one-time additional \$2 per pound on what the future quota will be for the grower who will sign a statement saying that he is permanently out of the tobacco business and will not ever get into it again. There is a 5% preference given to beginning farmers. They will automatically receive 5% off the top of the county's pool of quota. This bill is going to be funded by a user fee. The user fee will be assessed by the tobacco companies, based on what they sell. We all know that this will be passed down to the consumer. Dr. Snell estimates this will be around .10 per pack. The buyout will be paid out over 5 years, but it will take the tobacco companies about 8 years to reimburse the federal government for the buyout. Under the Fletcher bill the user fee goes away. The tobacco companies may keep on assessing this for their own profit. He also told us about a deal that would make revenue generated from a buyout state tax exempt. There could be some state excise taxes on a pack of cigarettes. We don't know where this will go. Our bill is competing with a couple of other bills. Phillip Morris came out strongly in support of the McIntire Bill earlier this year. What we are trying to do is think about year 6. This is a 5-year payment. We feel like we need a safety net for growers and a buffer between them and the tobacco companies. He feels like it is unlikely that a tobacco bill will pass this year. The pressure is mounting politically to get a buyout. There was discussion and

questions on this bill. Mr. Jennings told us that those with bases of 1,000 pounds or less can get their money in a one time payment instead of spreading it out over 5 years. There also was further discussion on a state excise tax on cigarettes.

**Other Business –**

Sharon Furches – told us we can plan to meet early in the fall. We will discuss legislative issues at that meeting.

Joel Neaveill told everyone to direct any legislative issues that needs research to our office so we can get things prepared for the next meeting. There was some discussion on a few legislative issues.

Dr. Harold Benson- shared some insight into the plans for Kentucky State University's leadership.

**Next Meeting**

Sharon Furches – She told us to tentatively schedule the next meeting for the week of October 14<sup>th</sup>.

**Meeting Adjourned at 4:00pm**

**\* Copies of handouts are available at the Governor's Office of Agricultural Policy.**